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ADVICE TO ESMA

Sustainable Finance

I. Background and Objectives

Following the publication of the Commission Action Plan on Green and Sustainable Finance in early March 2018, the SMSG decided to provide advice to ESMA on the topic. The Commission has then published on 24 May a package of measures as a follow up to its Action Plan.

In that context the SMSG main tasks are to:

1. First prepare a high-level advisory paper on principles/doctrine that ESMA should take into account in its work on sustainability to be discussed at the September SMSG meeting.

2. Provide further input for ESMA's work on sustainability in light of its expected deliverables for 2018 and 2019 as listed in the Commission Action Plan and its subsequent package of proposed regulatory measures. In this regard, the SMSG will prioritise the specific topics to focus on in order to best support ESMA in its endeavours.

A first application of such principles as advice to ESMA concerns the integration of sustainability in ESMA's MiFID II Suitability Guidelines which were published on 28 May. Despite the absence of a detailed general taxonomy, it is clear that ESMA could not be silent on sustainability in such guidelines and rightly decided to make reference to best practices in such released Guidelines. Our work should also take into account that the Suitability Guidelines had to be issued well before the completion of a much-needed overarching European Taxonomy, which should be based on recommendations by a Technical Expert Group. To note also that the Commission has just completed a consultation to assess how best to include ESG considerations into the advice that investment firms and insurance distributors offer to individual clients. The aim is to amend Delegated Acts under MiFID II and the Insurance Distribution Directive.

Beyond the suitability guidelines and MiFID2, other key tasks being contemplated by ESMA are on:
- CRA
- Short termism
- Corporate reporting

Other areas for consideration would include: Prospectus regulation; benchmarks; possible prudential incentive measures ("green supporting factor") given their potential impact on financial markets.

All such tasks are expected to be conducted in a context of tight timetables and limited current resources and expertise at ESMA.

At this stage this report focuses therefore first on general advice principles and taxonomy, as well as on suitability requirements and investors duties.

II. Growing Importance of the Green and Sustainable Finance

The transition to a sustainable global economy requires scaling up the financing of investments that provide environmental and social benefits. The magnitude and diversity of sustainability investments, notably those related to climate change mitigation and adaptation (as well as air and water pollution, resource depletion, and biodiversity loss) are unprecedented. These investments are not exclusively focused on certain economic sectors such as energy infrastructures. Rather these investments are an essential and permanent feature of the whole investment effort globally.

A tremendous amount of financing is required to realise the Sustainable Development Goals. Investment in infrastructure development alone—a key bottleneck to economic transformation and sustainable growth—faces increased financing needs. A recent OECD assessment indicates a need for a 10% increase in global infrastructure spending (from $6.3 trillion to $6.9trn p.a.), to achieve an ambitious 2-degree scenario. These investments are expected to open up $12 trillion of market opportunities as well as create 380 million new jobs. Currently, private investment accounts for up to half of total infrastructure spending of $1 trillion to $1.5 trillion a year.

Conversely, almost $100 trillion of funds are managed by institutional investors in OECD countries, of which only a minor percentage is invested in sustainable assets. The recognition of the funding gap and the need for innovative financing has led to the advent of financial products that incorporate ESG factors also known as Socially Responsible Investments (SRI). An increasing number of investors are already demanding systematic and structured information regarding the direct and indirect contributions of their investment to the adaptation of the economy to sustainability.
The OECD observes that debt currently finances the majority of infrastructure investment. In particular, bond finance is a natural fit for low-carbon and climate-resilient infrastructure assets (2017 report on "Mobilising Bond Markets for a Low-Carbon Transition").

Hence, Green, Social and Sustainability Bonds are helping to channel investment to sustainable infrastructure, essential services, and beyond. These instruments have begun to unlock private capital to finance these global needs.

Green, Social and Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and/or social projects. They are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.
Investors are showing a growing interest in green and sustainable finance as reflected for example by the exponential increase in the global green bond market,
(+80% in 2017 to represent a cumulative issuance of over $400 billion by some 400 issuers across 50 countries globally and in over 30 currencies).
The **Green Bond Principles (GBP) and Social Bond Principles (SBP),** as well as the Sustainability Bond Guidelines (SBG), referred to as the "Principles" have become the leading voluntary framework globally for issuance of green, social and sustainability bonds as some 85% of total Green Bonds issued in 2017 were aligned to GBP standards.

This looks promising, but it is still insufficient. Green markets remain relatively small as green bonds still account for less than 2% of global debt issuance. Since current levels of investment are not sufficient to support an environmentally and socially sustainable economy, policy makers have also to contemplate ways and means to refocus capital flows toward projects supporting a sustainability transition.
Thus, the success of the transition will also depend on the ability to broaden the sources of financing beyond green bonds in instruments such as green loans, equity products, and more green financing in general, accessible to individuals, SMEs and start-ups.

Green and sustainable financing would also require an innovation-friendly framework into areas such as securitization, covered bonds, derivatives, crowdfunding platforms and green private equity. The approach to integration of sustainability into investment decision-making continues to evolve, and faces challenges including methodology and data availability.

III. Global Standards and Regulatory Recognition: EU Action Plan

Annexes 1 and 2 summarise current market and official standards and official regulatory actions.

A. Existing market practices and standards

The development and tracking of green finance activities is gaining momentum. Definitions and tracking are most advanced in the bond market and could serve as an example for other products
Green, Social and Sustainability Bonds are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.
At present, there are two widespread complementary market standards: the Green, Social and Sustainability Bond Principles (GBP) and the Climate Bond Initiative (CBI).
The ICMA GBP is the market's leading framework; CBI incorporates the GBP and adds a more extensive green taxonomy and a process for the certification of green bonds
Several guidelines and regulations issued since the founding of the Green Bond Principles have built on the framework.

The methodology and tools of GDPs have also wider relevance for the development of sustainable finance for other instruments. Synergies with the loan market were crystallised last March with the Green Loan Principles released by the LMA, APLMA with the support of ICMA. The GBP working groups and other market participants continue to focus efforts on understanding taxonomies across different initiatives and developing reporting and impact assessment models and standards.
In addition, the International Organization for Standardization is currently developing Green Bonds Standards ISO 14030 that expands on the GBP

B. Global Official Regulatory recognition

Capital flows need to be refocused while mitigating disruption risks. At the same time, we must carefully assess the impact of existing regulations and not lose sight of the main goal for supervisors, which is financial stability.

A range of **international initiatives** are underway, involving official and private sector institutions.
The **G20 Sustainable Finance Study Group** has already shown leadership via Green Finance Synthesis reports. The Group's aim is "identify institutional and market barriers to green finance, and based on country experiences, develop options on how to enhance the ability of the financial system to mobilize private capital for green investment".

The FSB Task Force on Climate-related Financial Disclosures (TCFD) has developed guidance on voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders.

Another recent official initiative is the **Central Banks and Supervisors Network for Greening the Financial System (NGFS)**, launched at the Paris One Planet Summit on 12 December 2017. Its purpose is **"to help strengthening the global response required to meet the goals of the Paris agreement and to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development."**

In this context, regulation is evolving across regions beyond Europe:

- **China** has released Government guidelines largely based on international market practices referring to the GBP and with an official green taxonomy
- The Securities Exchange Board of **India** has released listing disclosure requirements for Green Bonds based on the GBP and international market practice
- Capital Market Regulators launched **ASEAN** Green Bond Standards to drive Sustainable Investments for ASEAN Green Bonds aligned with the GBP (Nov 2017)

- **Japan** released Green Bond guidelines in March 2017

Sustainability touches many parts of the economy and will pose different regulatory challenges in different sectors.

We should therefore promote a harmonised approach to ensure that global sustainability initiatives realise their full potential.

C. European Regulation: The EU Commission Action Plan

The Commission released on 8 March 2018 an **Action Plan on Sustainable Finance** that follows many of the **High Level Expert Group (HLEG)** recommendations on sustainable finance such as an EU sustainable taxonomy and a Green Bond standard.
It outlines the features of an Action plan for a "Greener and Cleaner Economy" depicting its strategy for a financial system more supportive of climate and sustainable development agenda and also setting up a road map.

The Plan is very concise and focused. It is probably one of the most ambitious policy blueprints ever published on sustainable finance.

In order to ensure that sustainability considerations are appropriately integrated in the financial services value chain, including with respect to prudential regulation, and that investment in sustainable projects is fostered, the road map of the EU Commission outlines 10 work-streams contributing to three main areas of progress:

A. Re-orientating capital flows towards a more sustainable economy

1. Establishing an EU classification system for sustainable activities (taxonomy)
2. Creating standards and labels for green financial products
3. Fostering investment in sustainable projects
4. Incorporating sustainability when providing financial advice
5. Developing sustainability benchmarks

B. Mainstreaming sustainability in risk management

6. Better integrating sustainability in ratings and market research
7. Clarifying institutional investors' and asset managers' duties
8. Incorporating sustainability in prudential requirements (e.g. a green supporting factor)

C. Fostering transparency and long-termism

9. Strengthening sustainability disclosure and accounting rule-making
10. Fostering sustainable corporate governance and attenuating short-termism in capital markets

Generally, the Commission is proposing in the Action Plan several legislative initiatives by end-2019 (see list of initiatives in Annexe 3). Some of these could potentially lead to unintended complexity and consequences for market participants.

Regarding the timetable, the Commission lays down some deadlines (see detailed calendar in Annexe 4):

- May 2018, proposals on the duties of institutional investors and asset managers and on the principles and scope of an EU taxonomy for sustainable activities.
- Q2 2018, the amendment of Markets in Financial Instruments Directive (MIFID II) and the Insurance Distribution Directive (IDD) delegated acts, to enhance sustainability in suitability assessment.
- Q1 2019, publication by an expert group of a report on a taxonomy on climate change activities.
- Q2 2019, Report on a taxonomy on climate change adaptation and other environmental activities as well as a Report on green bond standards.

- The Commission will create EU Ecolabels for financial products and explore possible prudential measures to incorporate climate and environmental risks after the adoption of an EU regulation on taxonomy.
- Assessment by the Commission of the fitness of EU legislations on public corporate reporting, and the amendment of non-binding guidelines on non-financial reporting. The adoption of delegated acts on a prospectus for green bond issuances and the publication of a study on sustainability ratings and research.

Accordingly, the Commission published on 24 May 2018 a package of measures as a follow up to its Action Plan which comprises:

***A. Three Proposed Regulations*:**

1. A unified EU classification system ('taxonomy'): The proposal sets harmonised criteria for determining whether an economic activity is environmentally-sustainable. Step by step, the Commission will identify activities which qualify as 'sustainable', taking into account existing market practices and initiatives and drawing on the advice of a technical expert group. This should provide economic actors and investors with clarity on which activities are considered sustainable, so they take more informed decisions. It may serve as the basis for the future establishment of standards and labels for sustainable financial products, as announced in the Commission Action Plan on Sustainable Finance.

2. Investors' duties and disclosures: The proposed Regulation will introduce consistency and clarity on how institutional investors, such as asset managers, insurance companies, pension funds, or investment advisors should integrate environmental, social and governance (ESG) factors in their investment decision-making process. Exact requirements will be further specified through Delegated Acts, which will be adopted by the Commission at a later stage. In addition, those asset managers and institutional investors would have to demonstrate how their investments are aligned with ESG objectives and disclose how they comply with these duties.

3. Low-carbon benchmarks: The proposed rules will create a new category of benchmarks, comprising the low-carbon benchmark or "decarbonised" version of standard indices and the positive-carbon impact benchmarks. This new market standard should reflect companies' carbon footprint and give investors greater information on an investment portfolio's carbon footprint. While the low-carbon benchmark would be based on a standard 'decarbonising' benchmark, the positive-carbon impact benchmark would allow an investment portfolio to be better aligned with the Paris agreement objective of limiting global warming to below 2° C.

B. A Consultation on amendments to delegated acts under MiFID2 and IDD (until 21 June):

https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-2681500_en
The Commission has conducted a consultation to assess how best to include ESG considerations into the advice that investment firms and insurance distributors offer to individual clients. The aim is to amend Delegated Acts under MiFID II and the Insurance Distribution Directive. When assessing if an investment product meets their clients' needs, firms should also consider the sustainability preferences of each client, according to the proposed rules. This should help a broader range of investors access sustainable investments.

WG Recommendation 1

1. *The SMSG supports the accelerated development of the market to high and consistent standards. The key challenge with the Action Plan and the proposed Regulations package will be to find the right balance in implementation, and not create regulatory complexity or legal uncertainty, as the ultimate goal is to encourage innovation, increase investment and finance for sustainable projects. In particular it addresses key qualitative challenge i.e. the risk of green washing which may undermine the reputation of green markets and impede progress.*

*At the same time, there is a duty of care to **avoid being inflexible or overly prescriptive** on such a forward-looking topic, as the market has not yet reached maturity and therefore to avoid the risk to* *put Europe at a global competitive disadvantage. We believe that certain proposals may need adjustment to avoid creating such unintended barriers to market development. Rather a principles-based framework should be favoured.*

2. *The critical prerequisite for an orderly development is a clear and harmonised taxonomy of green assets, project categories and sectors* ***. The Group therefore welcome the Commission Proposal (24.05.2018) on Taxonomy to be finalised with the help of an Expert Group by the end of 2022.***

3. *The global nature and inter-connectedness of sustainability markets calls for* ***international cooperation*** *to avoid regulatory fragmentation, curb incentives for regulatory arbitrage, and spread best practice.* ***Globally consistent taxonomies and standards should be thus sought to achieve such above objectives, in particular with the global bodies as mentioned above.***

IV. ESMA AND OTHER ESAs EXPECTED ROLE AND RESOURCES

Already the review of the ESA Regulations had mandated the ESAs to consider Sustainable factors in their activities.

The **Action Plan** calls specifically on the ESAs to provide direct support to its implementation by performing specific tasks including:

- Providing guidance on how sustainability considerations can be effectively taken into account in relevant EU financial services legislation and help to identify existing gaps.
- Promoting convergence on the implementation of sustainability considerations in EU law.
- Identifying and reporting on the risks that sustainability factors pose to financial stability through the development of a common EU methodology for relevant scenario analyses, which could later evolve into climate/environment stress testing.

The Commission proposes to assess the future resourcing of the ESAs in the context of the post-2020 multiannual financial framework.

WG Recommendation 2:

The SMSG stresses the critical need for appropriate additional budget at ESMA to build adequate and most needed resources and expertise on climate scenario analysis and sustainability, and sustainable finance, the latter to ensure effectiveness for market implementation.

Strengthening sustainability skills in Stakeholders Groups is also an important consideration.

V. TAXONOMY & STANDARDS

The Commission has issued principles and scope of an EU taxonomy for sustainable activities. First proposals will be produced by a new Technical Expert Group early 2019.

The Commission's Action Plan proposes to proceed with a step-by-step approach to an EU sustainability taxonomy starting with a first taxonomy focusing on climate change mitigation activities (by Q1 2019) and then a taxonomy on climate change adaptation and other environmental activities (by Q2 2019). The following step will be to produce a taxonomy to cover remaining environmental and social activities.

Little information is available in the Action Plan in respect of activities contributing to social objectives though they are clearly intended to be part of the final taxonomy. In that context the WG considers that environmental and social aspects should rather be considered simultaneously to the extent possible as there is significant complementarity and equally pressing need for social investment as environmental to produce truly resilient and sustainable communities and thus avoid any unintended consequences of a single dimensional focus.

Establishing such much-needed Taxonomy is the foundation of all expected ESMA tasks.
Indeed, despite the impressive growth of the labelled Green, Social and Sustainability financial markets, there are a number of factors that act as market challenges:

- The creation of green and **sustainability classifications and taxonomies** would offer benefits to the market as a whole by defining the assets that can be financed by a sustainable debt issuance
- Recognising and/or instituting **Standards and labels** would help identify sustainable assets for investments, financing or securitisation
- Alleviating the variation in sustainability metrics for **impact reporting**, both quantitative and qualitative would ensure the availability of transparent and relevant information for investors
- **Diversifying sustainable financial instruments** beyond use of proceeds of green and social bonds through financial innovation could result in more liquidity in this sector

Based on an agreed taxonomy, it would then be easier to finalise common standards for the green bonds market and a possible future label, while also underlining the success of the current voluntary and self-regulatory nature of the international green bond market.

WG Recommendation 3

We consider that a mix of industry standards, policies and regulation would be needed to create the right co-regulatory framework to ensure trust and confidence for both sustainability-based business models and products and their customers. It would therefore make sense to promote consistency through a convergence towards a harmonised European standard, in particular leveraging the GBP approach in terms of processes and transparency and building on the CBI approach with regard to taxonomy.

There should also systematically be an independent measurement and evaluation of the expected impacts and risks.

Finally, there is a need for having governance processes in place to allow for the taxonomy to be updated in a timely manner to ensure it keeps up with innovation.
In that regard, the SMSG recommends also:

- to consider having an enduring council or similar body, with international links, to oversee the continuous development of the taxonomy; shape its evolution and aspire to influence global taxonomy and standards development. Such group to have good representation from all stakeholders.

- to consider having a forum for coalescing and stimulating thought-leadership and sharing of evidence of impact and returns, including academic research.

- *In order to assist the development and adoption, continue a consultative and open process that engages regulators and in particular ESMA, also at level 1, and all stakeholders, including the SMSG, as the legislation is developed.*

WG Recommendation 4

In working on relevant EU financial services legislation and helping to identify existing gaps, ESMA should: 1) ensure to establish a detailed mapping of existing market practices also through workshops with practitioners; 2) use preferably any leeway provided in existing regulation avoiding amending level 1 legislation while converging towards market practices.

Consistency of Standards with the UN Sustainable Development Goals (SDGs)
One critical issue is the need for consistency of any European Standards with the SDGs. Indeed, since the SDGs were launched in 2015, they have been increasingly accepted and applied in the financial markets as ESG and impact investing are becoming mainstream. Large asset owners are starting to set targets for SDG-aligned investments. For example, the Global Impact Investing Network reported that 60% of impact investors stated that they actively track or plan to track the financial performance of their investments with

respect to the SDGs. In addition, MSCI's survey of investors revealed that the SDGs are clearly emerging as the dominant framework around which to organize investing for impact. Many surveyed indicated that stakeholders were explicitly pressing them to consider the SDGs in the investing process. Investors that had been investing for impact prior to the SDGs indicated that they saw a growing necessity to report and frame their activities around the SDGs. International policy over the last few years have brought about a momentum within the global capital markets to establish a link between investing and achieving the SDGs.
In response to this growing momentum, there have been several efforts made by several institutions and bodies to present approaches which adapt the SDGs to an investable context.

In that context ICMA has created a Guide (released on 14 June 2018) which should provide a broad frame of reference by which issuers, investors and bond market participants can map the financing objectives of a given Green, Social or Sustainability Bond against the Sustainable Development Goals (SDGs). This mapping exercise complements the Green Bond Principles (GBP), Social Bond Principles (SBP) and the Sustainability Bond Guidelines (SBG) in promoting the increase of bond financing that contributes to the mitigation of climate change and amelioration of social challenges globally.

WG Recommendation 5
ESMA should ensure to the extent possible that its guidelines and regulatory work take into account such consistency/alignment with the SDGs.

VI. SUITABILITY GUIDELINES & INVESTORS DUTIES

Specifically, the Commission Action Plan states:

- ***For suitability assessments**, "the Commission will amend the MiFID II and IDD delegated acts in Q2 2018 to ensure that sustainability preferences are taken into account in the suitability assessment. Based on these delegated acts, the Commission will invite the European Securities Markets Authority (ESMA) to include provisions on sustainability preferences in its guidelines on the suitability assessment to be updated by Q4 2018."*

- ***For investor duties** "the Commission will table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations by Q2 2018. The proposal will aim to explicitly require institutional investors and asset managers to integrate sustainability considerations in the investment decision-making process, and (ii) increase transparency towards end-investors on how they integrate such sustainability factors in their investment decisions, in particular as concerns their exposure to sustainability risks. "*

It will involve revisions of UCITS, AIFMD, MIFID II, Solvency II, IORP II, and would also require efficient ESAs coordination. Existing PRIIPs requirements already include sustainability factors.

Comments

The European Commission calls thus for 1) client preferences regarding ESG and sustainability to be incorporated into MiFID product suitability rules when giving investment advice, and 2) factoring sustainability into the fiduciary duties of asset managers and institutional investors.
It should be noted that some European countries have already included such requirements into their national legislation.

In particular, France, in Article 173 of the French Energy Transition Act of 2015 obliges institutional investors, insurance companies, provident societies, pension companies and social protection companies to provide information on climate risk management and to take into account the factors involved. France has also released an official label for green funds which makes alignment with the Green Bond Principles a requirement.

The first reports were published in June 2017 and incorporate ESG and climate risk factors.

WG Recommendation 6

Implementation of such suitability guidelines by ESMA in the absence of a detailed finalised objectives, taxonomy may be complex as it will come to re-designing client profiling questionnaires to capture investment objectives, and to define the criteria and tools to scan products according to new complex criteria, also in an evolving Fintech environment. It should take into account the needs of the individual investor and avoid overly complex language or too lengthy disclosure requirements that already hinder consumer protection in financial services

However, since at this early stage Suitability Guidelines had to be produced before the end of June 2018, the SMSG welcomes that ESMA had included a reference to sustainability limited to an invitation to follow best market practices and standards, consistent with the Commission proposal to amend MiFID2 delegated acts published on24 May 2018.

With regards to such proposed amended MiFID2 delegated acts, the SMSG recommends:

- *a careful alignment with the ESG definitions to be introduced with the proposed Taxonomy Regulation.*
- *The Taxonomy Regulation's scope is on "financial market participants offering financial products as environmentally sustainable investments" while MiFID 2 is a comprehensive set of rules on investment services, activities and financial instruments. The regulation needs therefore to clearly define whether the ESG considerations should be applied to the market participants as such or their activities in specific financial instruments. From a market perspective we recommend the provisions should be implemented on financial instrument level and preferably to certain types of "traditional" investment instruments – e.g. equities, bonds, funds, etc.*
- *In order to ensure consistency and continuity with existing MiFID II provisions and in line with the HLEG recommendations, the ESG considerations and preferences should apply to the existing scope of retail clients.*

Investors duties

The Commission proposed regulation (24 May 2018) includes 4 types of general requirements on institutional investors and asset managers, depending on their investment style and investment strategies:

1) All strategies: integrate ESG factors in the investment decision process and disclose how this is done
2) Sustainability based strategies: show / demonstrate impact
3) Green funds: indicate the way and extent to which the taxonomy was used.
4) Low-carbon strategies: use the Low-carbon index benchmark

Generally, the WG supports the intention to clarify **'investor duties'** to consider material ESG issues in investment decisions, where appropriate and consistent with the time horizon of the investment.

However, there is a general concern on direct legislative action rather than alternative forms of guidance to clarify institutional investors' duties in relation to sustainability issues, particularly as such fiduciary duty is typically a matter of professional judgment taking into the consideration the best interests of the client rather than any political considerations.

We believe that the current understanding of 'fiduciary duty' by asset owners and asset managers already takes ESG factors into account over the relevant time horizon of the asset owners' investment. We agree that a formal reiteration of this common understanding could further accelerate the integration of material Sustainability/ESG factors in investment decisions, where relevant.

A workable approach, however, would require a proportionate framework allowing for flexibility for application across a wide range of different investment strategies and horizons.

WG Recommendation 7

A legislative approach to codify rigidly investor duties is not necessarily the appropriate way to achieve the goal sought. Rather, guidance, issued by ESMA would be a more appropriate instrument to add clarity to investors duties based on the Commission's proposed Regulation general requirements.

While the SMSG believes that non-legislative guidance would have been a preferable course to take, we welcome that the integration of ESG factors in investor duties is at least undertaken at Level 2 , as this should minimise, well-meaning but unworkable investor duties appearing in a level 1 legislative process which could risk undermining the objectives of the exercise.We recommend that a flexible approach to the Level 2 measures be adopted ,in order to leave room for ongoing innovation in the approach to integrating measures, sustainability into financial analysis.

Care should also be taken to avoid excessive reliance on reporting, which could distract from the important goal of the investment decision-making, with little benefit to Sustainability goals, investors or society in general.

ANNEXES

1. Summary of Market and Official Regulation

Market Developments – Taxonomies / Standards

- The **development and tracking of green finance activities** is gaining momentum. Definitions and tracking are **most advanced in the bond market** and could serve as an example for other products
- Several guidelines and regulations issued since the founding of the Green Bond Principles have built on the framework
- The GBP working groups and other market participants continue to focus efforts on understanding taxonomies across different initiatives and developing reporting and impact assessment models and standards

Examples of Existing Standards and Frameworks

Market Led	
Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainable Bond Guidelines (SBG)	Global self-regulatory reference for international Green, Social and Sustainability Bond market
Climate Bonds Initiative (CBI)	CBI produces (i) a standard for GB certification, (ii) a green asset taxonomy and (iii) a GB list
Official Sector Led	
People's Bank of China	PBoC and NDRC have published green bond guidelines with a list of qualifying green projects and proposals for policy incentive
European Commission – High-Level Expert Group on Sustainable Finance (HLEG)	In addition to draft Green Bond Standards, the HLEG has published a classification of sustainable activities that is applicable to all types of assets and capital allocation including project finance, bonds and equity
ASEAN Capital Markets Forum	The ASEAN Green Bond Standards based on GBP were tailored to meet the needs of ASEAN
The Securities Exchange Board of India (SEBI)	Published listing disclosure requirements for Green Bonds based on the GBP and international market practice
Japan - Ministry of the Environment	Published guidelines consistent with the GBP tailored to the characteristics of the Japanese bond market
France - Ministries of Finance & Environment	Introduced of a two labels for funds: Socially Responsible Investment (SRI) label and a Transition Energy and Ecological for Climate (TEEC) label

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2. Current Market Standards

Green Bond and Social Bond Principles

The common feature of green bonds, social bonds and sustainability bonds is their predetermined use of proceeds and voluntary alignment with four core components of the GBP and SBP.*

The GBP and SBP are based on four pillars and external review recommendations:

The Green Bond Principles

The Social Bond Principles

Under the Governance, it is the Executive Committee that decides on updates of the GBP and the SBP with the input of members and observers through annual consultations organised by the Secretariat

*Environmental Social and Governance (ESG) bonds also integrate governance criteria which are not featured in the GBP, SBP or SBG; and may refer to an issuers overall sustainability credentials rather than a specific use of proceeds.

Green Bond "Standards"

- The GBP is the market's leading framework; CBI provides a green taxonomy, and a standard for the certification of green bonds
- International Organization for Standardization is currently developing Green Bonds Standards ISO 14030 that expands on the GBP

	Green Bond Principles	Climate Bonds Initiative
Recognition	• Global self-regulatory reference for international Green Bond market • Recognised and reflected in markets that have or are considering regulation e.g. China, EU, India and ASEAN countries	• CBI standard and taxonomy is widely looked to by the official sector and the market • CBI has played key role in advising China on set-up of its GB market and is a full member of the EU's HLEG on Sustainable Finance
Output	• GBP provides high level principles for GB issuers focused on transparency and reporting	• CBI produces (i) a standard for GB certification, (ii) a green taxonomy and (iii) a GB list
Representation	• Represents a consensus view based on input of entire market via GBP and its near 250 members and observers	• CBI represents in particular a buyside view as reflected by the composition of its Climate Bond Standard Board (CBSB)
Defining Green	• Provides only high level guidance on green through its Eligible Project Categories	• Detailed guidance through a green taxonomy
Market Guidance	• The GBP is not involved in vetting individual GB issues • Provides broad market guidance through its online Questions & Answers	• CBI manages a bond certification scheme that can be renewed post issuance and uses independent "accredited verifiers" • CBI's GB list is largely used by the market and is a reference point for indices & database providers

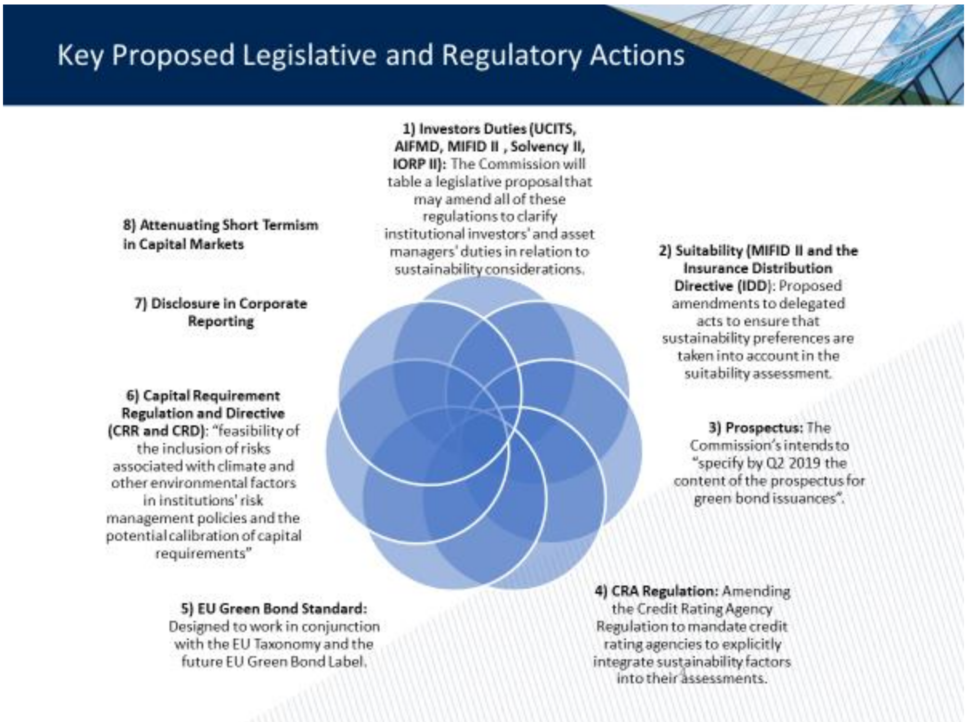
Green Label Providers

Organisation	Product	Main characteristics
Climate Bond Initiative	Certification	• Pre issuance with post issuance option • Based on CBI standard and taxonomy • Supported by accredited external verifiers
Moody's	Green Bonds Assessment	• Focuses primarily on formal alignment with the GBP • May be updated periodically following issuer's reports (post issuance)
S&P Ratings	Green Evaluations	• Assessment of environmental impact and/or climate resilience of green bonds and green finance products • Incorporates the GBP
LuxFLAG	Green Bond Label	• Pre and post issuance • Reference to the GBP, CBI taxonomy and UN SDGs • Issuer to report every 2 years post issuance
CICERO	Shades of Green	• Pre issuance methodology to assess how green a bond is (from "dark green" to "brown") • Published in the Green Bond Second Opinion by CICERO

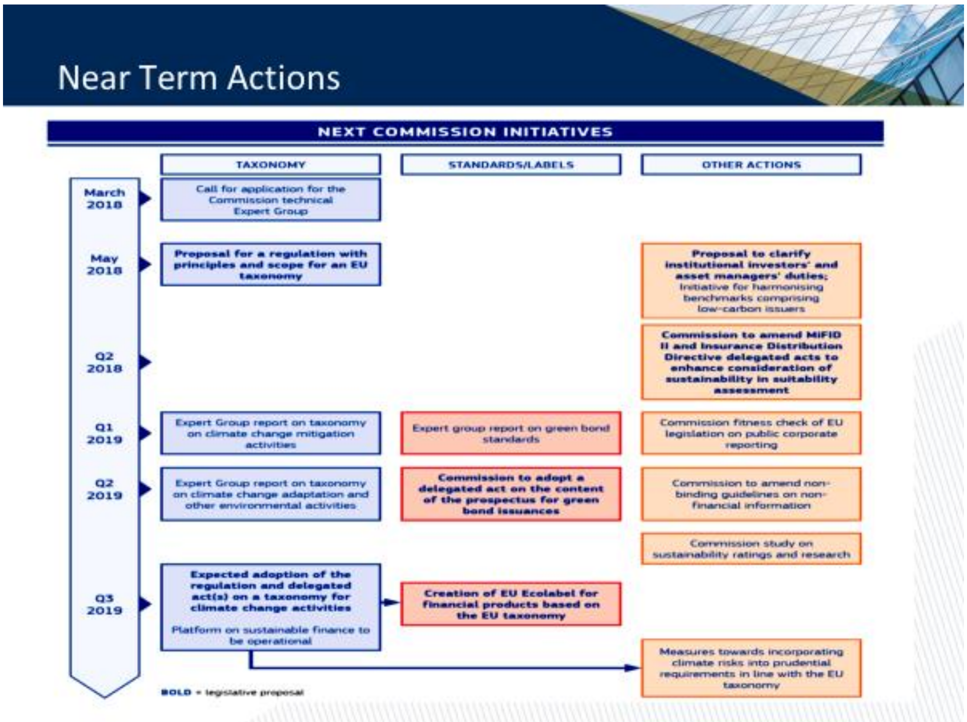
Examples of External Verifiers

Organisation	Description
Cicero	An independent, not-for-profit research institute, CICERO is a provider of second opinions on the frameworks for green bond investments since the market's inception in 2008
Sustainalytics	Sustainalytics is a global environmental, social and governance (ESG) and corporate governance research and analysis firm. It helps clients turn vast quantities of environmental, social and governance information into insightful, value-added analysis to enable more informed investment decisions.
Oekom	Oekom Research AG is a leading external reviewer in the segment of sustainable investments.
Vigeo Eiris	Vigeo Eiris is a global independent provider of ESG research and services for investors, public and private organisations and NGOs.

3. EC Action Plan
Key Proposed Legislative actions



4. EC Action Plan
Proposed Timetable



This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

Adopted on 20 September 2018

Rüdiger Veil
Chair
Securities and Markets Stakeholder Group